

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF SOUTH DAKOTA**

<b>IN THE MATTER OF THE APPLICATION OF</b>	)	<b>FINAL DECISION AND</b>
<b>SPLITROCK TELECOM COOPERATIVE, INC.,</b>	)	<b>ORDER APPROVING SALE</b>
<b>BALTIC TELECOM COOPERATIVE AND EAST</b>	)	<b>OF TELEPHONE</b>
<b>PLAINS TELECOM, INC. FOR APPROVAL OF</b>	)	<b>EXCHANGES THROUGH</b>
<b>THE SALE, BY MERGER AND DISSOLUTION,</b>	)	<b>DISSOLUTION AND</b>
<b>OF THE ALCESTER, HUDSON, BALTIC AND</b>	)	<b>MERGER; NOTICE OF</b>
<b>CROOKS TELEPHONE EXCHANGES AND</b>	)	<b>ENTRY OF ORDER</b>
<b>FOR APPROVAL OF AN AMENDMENT TO</b>	)	
<b>SPLITROCK TELECOM COOPERATIVE, INC.'S</b>	)	<b>TC02-159</b>
<b>CERTIFICATE OF AUTHORITY</b>	)	

On September 18, 2002, Splitrock Telecom Cooperative, Inc. (Splitrock) , Baltic Telecom Cooperative (Baltic) and East Plains Telecom, Inc. (East Plains) (together, "Applicants") filed an Application for Approval of a Transfer of Telephone Exchanges and Amended Certificate of Authority seeking approval by the South Dakota Public Utilities Commission (Commission) of: (i) a transaction in which East Plains will be dissolved and its assets, including its local telephone exchanges will be distributed to Baltic, East Plains's sole shareholder, and following such dissolution and distribution, Baltic will merge into Splitrock in accordance with the Agreement and Plan of Merger between the parties; and approval of an amendment to Splitrock's Certificate of Authority to authorize it to provide local exchange telephone service in service area of the exchanges to be transferred to it as a result of the transaction. Applicants seek approval of the dissolution and merger transaction pursuant to SDCL 49-31-59 because the transaction would transfer control of four local telephone exchanges in South Dakota (collectively, the Baltic Exchanges) from the Baltic consolidated enterprise to Splitrock.

On September 19, 2002, the Commission electronically transmitted notice of the filing and the intervention deadline of October 4, 2002, to interested individuals and entities. No petitions to intervene or comments were filed.

A hearing was scheduled for October 15, 2002, at 7:30 p.m., at the Garretson American Legion, Garretson, South Dakota. The hearing was held as scheduled. After hearing the evidence presented by Applicants and Commission Staff, the Commission separately considered and voted on whether to approve the sale of each of the Baltic Exchanges. The Commission voted unanimously in each of the separate votes to approve the sale of each of the Baltic Exchanges to Splitrock through the proposed dissolution and merger, subject to certain conditions. The Commission also unanimously approved the amendment of Splitrock's Certificate of Authority to include the service area of the Baltic Exchanges with an effective date of January 1, 2003.

Having reviewed the evidence of record and being fully informed in the matter, the Commission makes the following Findings of Fact and Conclusions of Law:

## **FINDINGS OF FACT**

### **GENERAL FINDINGS**

1. Baltic is a South Dakota cooperative headquartered in Baltic, South Dakota. Baltic owns and operates two local telephone exchanges in South Dakota, Baltic and Crooks, serving the cities of Baltic and Crooks and the surrounding areas (Baltic Coop Exchanges). Exhibit 1 at 2.
2. East Plains, a South Dakota corporation, is a wholly-owned subsidiary of Baltic. East Plains owns and operates two local exchanges in South Dakota, serving Alcester and Hudson (East Plains Exchanges). Exhibit 1 at 2.
3. The Baltic Exchanges consist of the Baltic Coop Exchanges and the East Plains Exchanges.
4. Splitrock is a South Dakota cooperative headquartered in Garretson, South Dakota. Splitrock presently owns and operates two local telephone exchanges having approximately 5,268 access lines in the cities of Brandon and Garretson, South Dakota, and the surrounding areas. Splitrock's wholly-owned subsidiary, Splitrock Properties, Inc., operates two local exchanges having approximately 1,562 access lines in the cities of Howard, Oldham and Ramona, South Dakota and surrounding areas. Exhibit 1 at 2.
5. In accordance with the terms and conditions of an Agreement and Plan of Merger among Splitrock, Baltic and East Plains (Plan of Merger), East Plains will dissolve and distribute its assets to Baltic and Baltic will immediately thereafter merge into Splitrock (Transaction). Exhibit 1 at 3-4; Exhibit 3.
6. As a result of the Transaction, the Baltic Exchanges will be transferred to Splitrock.
7. Contemporaneously with the closing of the Transaction, Splitrock will change its name to Alliance Communications Cooperative, Inc. Exhibit 1 at 4.

### **ADEQUACY OF LOCAL TELEPHONE SERVICE**

8. The operations of Baltic, East Plains and Splitrock are currently operated under common management by means of a management agreement between the parties. Transcript at 9. There will accordingly be no noticeable change in the management or operations of the Baltic Exchanges following the Transaction. Exhibit 1 at 3 and 5; Exhibit 2 at 3; Transcript at 9 and 20.
9. Splitrock will retain all current offices and employees of Applicants. Transcript at 21.
10. Applicants have installed and made available to their customers facilities and services that provide state-of-the-art telecommunications services, including at many locations broadband services using DSL. Splitrock will continue these services following the Transaction. Exhibit 2 at 5. The Applicants' commitment to providing enhanced services will not change following the Transaction. Exhibit 2 at 6.

### **REASONABLENESS OF RATES**

11. Following the transaction, the existing rates to the Baltic Exchange subscribers will remain in effect. Transcript at 17, 18 and 21; Exhibit 2 at 3-4; Exhibit 3. The rates of some exchanges may be increased somewhat in the long term as Alliance adjusts rates to equalize rates among the various exchanges. Transcript at 24. Applicants' rates are lower than the rates provided for comparable service by Qwest in adjoining areas. Transcript at 18; Exhibit 2 at 3-4.

#### PUBLIC SAFETY ISSUES

12. Applicants provide connectivity to all Public Services Answering Points within their service territories. Emergency services will continue to be provided at least as extensively following the Transaction. Exhibit 1 at 5; Exhibit 2 at 4; Transcript at 18.

#### ABILITY OF THE BUYER TO PROVIDE SERVICE

13. Applicants have been managed in common at the operational level for several years under a management agreement, and operational management will therefore continue substantially unchanged following the Transaction. Exhibit 1 at 4; Transcript at 9 and 16. Splitrock's management team has extensive experience in the successful management and development of telecommunications cooperatives and operations. Transcript at 9. The management team has been successful in providing both basic telephone service and diverse and advanced service offerings to Applicants' members and patrons. Transcript at 19-20.

#### PROTECTION OF THE PUBLIC INTEREST

14. At the hearing in Garretson, there was no public opposition to the Transaction or acquisition by Splitrock of the Baltic Exchanges.

15. The dissolution of East Plains, follow-on merger of Baltic into Splitrock and resulting transfer of the Baltic Exchanges from Baltic and East Plains to Splitrock is in the public interest of the customers within the Baltic Exchanges for the following reasons:

a. Baltic and East Plains have already been operating under a common management agreement with Splitrock pursuant to which Splitrock provides operational management services for all of Applicants. The Transaction will reflect this operational reality in the structure of the entity and will result in operational savings through economies of scale in the provision of management services. Transcript at 16; Exhibit 1 at 6.

b. There will be no discontinuance, reduction or impairment of any the services, including customer service, presently offered by any of Applicants to their respective subscribers following the Transaction. Exhibit 1 at 5.

c. Rates will not increase as a result of the sale. Transcript at 17, 18 and 21; Exhibit 3. Rates for some customers may increase in the long term to equalize rates among the different exchanges. Transcript at 23-24.

d. Emergency services will continue to be provided to the exchanges at the level currently provided. Exhibit 1 at 5; Transcript at 18-19.

e. Customers in the exchanges will be able to obtain additional, advanced telecommunications services as needed. Transcript at 19-20.

f. Applicants currently provide and Splitrock will continue to provide modern, state-of-the-art telecommunications services that will help promote economic development, tele-medicine, and distance learning in rural South Dakota. Transcript at 19-20.

g. Patrons of East Plains who are not currently cooperative members will become cooperative members of the combined cooperative following the Transaction. Exhibit 1 at 4; Exhibit 2 at 1.

h. Both Splitrock and Baltic are currently in sound financial condition. The combined entity following the Transaction will experience significant cost savings over those currently incurred by the Applicants operating separately, and the combined entity will be financially stronger following the Transaction. Transcript at 16-17; Exhibit 2 at 3.

#### TAXES

16. The sale of the stock is not expected to affect the payment of state and local taxes. Exhibit 2 at 5; Transcript at 19 and 28.

#### CONDITIONS OF SALE

17. The Commission's approval of the proposed Transaction and the resulting sale or transfer of the Baltic Exchanges to Splitrock, shall be subject to the following conditions:

a. That the dissolution of East Plains, the subsequent merger of Baltic into Splitrock and the transfer of the Baltic Exchanges proceed substantially in accordance with the terms of the Plan of Merger and Exhibit 1.

b. That Splitrock shall honor all existing contracts, commitments, leases, licenses, and other agreements which relate to, arise from, or are used for the operation of the purchased exchanges;

c. That Splitrock continue to offer all services currently offered by the purchased exchanges;

d. That Splitrock not discontinue any existing extended area service currently provided to the purchased exchanges without first obtaining approval from the Commission; and

e. That the Commission amend the Certificate of Authority of Splitrock in accordance with SDCL 49-31-69 to include the exchanges of Alcester, Baltic, Crooks and Hudson.

#### SEPARATE VOTE ON EXCHANGES

18. The Commission voted separately on the sale of each of the Baltic Exchanges. The sale of each of the Baltic Exchanges to Splitrock was approved by unanimous vote of the Commission. Transcript at 51-52.

### CERTIFICATE OF AUTHORITY

19. Splitrock has demonstrated the requisite technical, financial and managerial capabilities to provide the local exchange services it has applied for authority to provide in the Baltic Exchange service areas. Findings 8-18; Transcript at 39 and 40-41.

### **CONCLUSIONS OF LAW**

1. The Commission has jurisdiction over the Transaction and sale of the Baltic Exchanges to Splitrock pursuant to SDCL Chapters 1-26 and 49-31, specifically 1-26-17.1, 49-31-3, 49-31-3.1, 49-31-4, 49-31-5.1, 49-31-7, 49-31-7.1, 49-31-11, 49-31-18, 49-31-19, 49-31-20, 49-31-21, and 49-31-59.

2. The hearing held by the Commission relative to this matter was an evidentiary hearing pursuant to SDCL Chapter 1-26.

3. The Commission has considered, among other things, the requirements of SDCL 49-31-59 in regard to the proposed sale of stock, and protection of the public interest pursuant to SDCL 49-31-7. The Commission finds that it is in the public interest to approve the Transaction and sale of the Baltic Exchanges because the sale will enable the customers to continue to receive high quality service and the combined entity will achieve economies of scale in its operations.

4. Applicants have satisfied their burden of proof under SDCL Chapter 49-31, specifically 49-31-59 for approval of the Transaction and the sale of the Baltic Exchanges to Splitrock.

5. The Commission has considered the adequacy of local telephone service in reviewing this Transaction and resulting sale of local exchanges. Splitrock is required to provide all services currently offered. In addition, Splitrock must honor existing contracts and other agreements.

6. The Commission has also considered the reasonableness of local rates. Based on its findings that rates for the customers will remain at substantially the same levels as they are presently, that such rates are lower than those offered in the area by Qwest, that except for increases in rates to some customers in the long term to equalize rates between subscribers, no increase in rates is planned at present and that all Baltic Exchange customers will become members of Splitrock following the Transaction and will have input into decisions to set the cooperative's rates, the Commission concludes that the local rates are and will, after the Transaction, be reasonable.

7. Any existing public safety services currently provided will continue.

8. There will be no change in the amount of state taxes paid as a result of the Transaction.

9. Splitrock has the ability to provide modern state-of-the-art telecommunications services that will facilitate economic development, tele-medicine, and distance learning in rural South Dakota after the sale.

10. The Transaction and the resulting sale through merger of the Baltic Exchanges to Splitrock subject to the Conditions of Sale should be approved.

Pursuant to SDCL Chapter 1-26, the Commission hereby enters its final decision in this case. It is therefore

ORDERED, that the dissolution and merger transaction among Splitrock, Baltic and East Plains and the resulting sale or transfer of the Baltic and Crooks local telephone exchanges from Baltic Telecom Cooperative to Splitrock Telecom Cooperative, Inc. and of the Alcester and Hudson local telephone exchanges from East Plains Telecom, Inc. to Splitrock Telecom Cooperative, Inc. is approved subject to the Conditions of Sale set forth herein; and it is further

ORDERED, that, effective January 1, 2003, the Certificates of Authority currently held by Baltic Telecom Cooperative and East Plains Telecom, Inc. shall be transferred to Splitrock Telecom Cooperative, Inc. and the Certificate of Authority of Splitrock Telecom Cooperative, Inc. shall be amended to include the authority to provide local telephone service within the service areas in which Baltic Telecom Cooperative and East Plains Telecom, Inc. have been authorized to provide local telephone service, consisting of the Baltic, Crooks, Alcester and Hudson local exchanges. Upon changing its name to Alliance Communications Cooperative, Inc., Splitrock will file notice of such fact with the Commission.

PLEASE TAKE NOTICE that this Decision and Order in Docket TC02-159 was duly entered this 12th day of November, 2002, and filed in the Commission's docket. Pursuant to SDCL 1-26-32, this Final Decision and Order will take effect 10 days after the date of receipt or failure to accept delivery of the decision by the parties. Pursuant to SDCL 1-26-31, notice of appeal to the circuit court from this decision must be served within thirty days after the service of this Notice of Decision upon you.

Dated at Pierre, South Dakota, this 12th day of November, 2002.

<p align="center"><b>CERTIFICATE OF SERVICE</b></p> <p>The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.</p> <p>By: _____</p> <p>Date: _____</p> <p align="center">(OFFICIAL SEAL)</p>
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BY ORDER OF THE COMMISSION:

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JAMES A. BURG, Chairman

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PAM NELSON, Commissioner

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ROBERT K. SAHR, Commissioner

